

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 NEA-10 ISO-00 FEA-01 ERDA-05 AID-05

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USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 /102 W

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R 181130Z DEC 75

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 4821

INFO AMEMBASSY ABU DHABI

AMEMBASSY BAGHDAD POUCH

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

C O N F I D E N T I A L TEHRAN 12252

E.O.11652: GDS

TAGS: ENRG, OPEC, IR

SUBJ: COMMENT ON GOI REQUEST THAT USG PRESSURE U.S. OIL  
COMPANIES TO INCREASE LIFTINGS

1. SUMMARY: GIVEN THAT MAJOR OIL COMPANIES CONTINUE TO TREAT IRAN  
SOMEWHAT BETTER THAN MOST OTHER PERSIAN GULF NATIONS AND THAT HIGH  
GOI OFFICIALS (WHO PRESUMABLY ADVISE THE SHAH) SHOW SOPHISTICATED  
UNDERSTANDING OF PRESENT OIL MARKET CONDITIONS, WE ARE SOMEWHAT  
PUZZLED AT GOI'S REGRESSION TO PRE-1973 PATTERN OF ASKING USG TO  
INTERCEDE WITH OIL COMPANIES TO PERSUADE THEM TO TAKE MORE IRANIAN  
OIL. END SUMMARY.

2. CONSORTIUM REPRESENTATIVE PROVIDED THE FOLLOWING FIGURES ON  
PERCENT DECLINE IN VOLUME OF OIL EXPORTS FROM PERSIAN GULF NATIONS  
IN THE FIRST TEN MONTHS OF 1975 COMPARED TO THE SAME PERIOD OF 1974  
(THESE FIGURES COVER ONLY THE MAJOR PRODUCING AREAS: THE  
IRANIAN CONSORTIUM, KOC, ARAMCO, QPC, SHEHL-QATAR, ADPC, ADMA  
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AND BPC):

IRAN	-12.2 PERCENT
KUWAIT	-20.3 PERCENT
SAUDI ARABIA	-18.4 PERCENT
QATAR	-21.9 PERCENT
ABU DHABI	- 9.7 PERCENT
IRAQ	PLUS 20.4 PERCENT
GULF AVERAGE	-14.5 PERCENT

THUS IRAN IS DOING BETTER THAN AVERAGE AND BETTER THAN ALL ITS NEIGHBORS EXCEPT FOR ABU DHABI AND IRAQ. WELL-KNOWN FACT IS THAT IRAQ IS SELLING MOST OF ITS CRUDE DIRECT -- BY UNDER-THE-TABLE PRICECUTTING IN THE GULF AND OVERT UNDERPRICING IN THE MEDITERRANEAN. ABU DHABI, AFTER LOSING EXPORTS DUE TO OVERPRICING, CUT ITS PREMIUMS, SAW EXPORTS SURGE, THEN CLAMPED A LID ON PRODUCTION. THUS ABU DHABI IS HARDLY COMPETIN AGRESSIVELY WITH ITS PARTNERS, THOUGH IRAQ CERTAINLY IS.

3. APPROPRIATE GOI OFFICIALS ARE CERTAINLY AWARE THAT THE LOW-LIFTINGS PROBLEM HAS TO DO WITH (A) PRICE DIFFERENTIALS IN A SLUGGISH MARKET; (B) INTRA-OPEC POLITICS CONCERNING LIFTING PATTERNS; (C) WARM WEATHER; (D) RECESSION IN OIL-IMPORTING COUNTRIES. THEY MUST BE AWARE, FOR EXAMPLE, THAT DEMAND FOR RESIDUAL FUEL OIL HAS DECLINED FAR MORE THAN DEMAND FOR LIGHTER PRODUCTS, BECAUSE OF WARM WEATHER AND RECESSION, THAT FUEL OIL INVENTORIES IN MAJOR MARKETS ARE HIGH, IN SOME CASES RESTRICTING REFINERIES' ABILITY TO PRODUCE ENOUGH LIGHT PRODUCTS, AND THAT CONSEQUENTLY THE MARKET STRONGLY FAVORS LIGHT CRUDES THAT YELD A MINIMUM OF FUEL OIL. THEY MUST BE AWARE ALSO THAT LIFTINGS OF ALL HEAVY CRUDES HAVE FALLEN, AND THAT ALL GULF PRODUCERS OF HEAVY AND MEDIUM CRUDE EXCEPT IRAN HAVE CUT PRICES, EITHER OPENLY (SAUDI ARABIA AND KUWAIT) OR SECRETLY (IRAQ). NIOC ITSELF HAS RECOMMENDED A SMALL CUT IN THE PRICE OF IRANIAN HEAVY. IN SPITE OF ALL THIS, THE GOI HAS REFUSED TO APPLY A LARGER NEGATIVE DIFFERENTIAL TO IRANIAN HEAVY. FACT THUS REMAINS THAT AT THIS PARTICULAR POINT IN TIME IRANIAN HEAVY IS OVER-PRICED AND NON-COMPETITIVE, VIS-A-VIS COMPARABLE SAUDI CRUDES. IN REDUCING THEIR LIFTINGS, COMPANIES ARE ONLY DOING WHAT ECONOMIC LOGIC WOULD DICTATE. YET OVERALL, IT APPEARS THAT THE MAJOR COMPANIES CONTINUE TO TREAT IRAN SIGNIFICANTLY BETTER THAN SAUDI ARABIA AND KUWAIT. THE COMPANIES, IN EFFECT, ARE DOING

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MORE THAN THEIR PART FOR IRAN, BUT GOI PRICING POLICY MAKES LIFE DIFFICULT FOR THEM.

4. THE GOI'S PROBLEM IS CLEARLY ONE OF INTRA-OPEC POLITICS, SPECIFICALLY WITH SAG AND IRAQ, YET THEY ARE RESPONDING AS THOUGH IT WERE A PRLBLEM BTWEEN IRAN AND THE OIL COMPANIES -- A RETURN TO THE DAYS BEFORE OPEC BECAME THE PRICE-FIXING CARTEL IT NOW IS. NOW, HOWEVER, GOI REQUEST THAT THE USG AND OTHERS "PRESSURE" THE

OIL COMPANIES TO TAKE MORE OIL FROM IRAN LOOKS RATHER LIKE A STEP INTO THE PAST. THE FAMILIAR ARGUMENTS, NOT ALL YET MADE EXPLICITLY TO US, DOUBTLESS ARE PRESENT: IRAN THE ALLY OF THE WEST, WHOSE STRENGTH SERVES WESTERN INTERESTS IN THE REGION, AND WHO THUS DESERVES BETTER OF US; IRAN WHO NEEDS THE REVENUE TO DEVELOP AND STRENGTHEN AND THUS TO SERVE OUR MUTUAL INTERESTS. YET THEY KNOW THAT THERE IS A CERTAIN LEVEL OF DEMAND FOR OPEC OIL, AND THAT OPEC'S ABILITY TO CARVE UP THE PIE IS THE TEST OF ITS COHESIVENESS AS A CARTEL. THE GOI IS SENSITIVE TO KUWAIT'S NEED FOR A LEVEL OF OIL PRODUCTION THAT PROVIDES SUFFICIENT ASSOCIATED GAS. THEY KNOW IRAQ WILL PLAY ITS OWN GAMES REGARDLESS OF WHAT IRAN DOES. THAT LEAVES SAUDI ARABIA. THUS GOI SEEMS, IN EFFECT, TO BE ASKING THE USG AND THE UK TO TRY TO ACHIEVE INDIRECTLY WHAT IT KNOWS IT COULD NOT ACHIEVE DIRECTLY: A REDUCTION IN LIFTINGS FROM SAUDI ARABIA TO MAKE MORE ROOM IN THE MARKET FOR IRANIAN OIL. GIVEN THE ECONOMICS OF THE SITUATION, WE SEE NO INCENTIVE FOR COMPANIES TO TAKE MORE IRANIAN OIL AT THIS TIME, EVEN IF USG WERE TO MAKE SUCH A REQUEST.

5. NOTE: DEPT. WILL RECALL THAT COMPOSITION OF CONSORTIUM IS 60 PERCENT EUROPEAN (40 PERCENT BP, 14 PERCENT ANGLO-DUTCH-ROYAL DUTCH SHELL, AND 6 PERCENT CFP-FRENCH) AND 40 PERCENT AMERICAN. NOTE ALSO AMBASSADOR HAS LEARNED THAT SHAH FEELS CONSORTIUM MEMBERS HAVE NOT LIVED UP TO THEIR LIFTINGS OBLIGATIONS UNDER 1973 PURCHASE AGREEMENT. CONSORTIUM REP COMMENTED TO EMBOFF THAT GOI HAS NOT YET DARED TO MAKE THIS ACCUSATION DIRECTLY TO MEMBERS. WHILE IT IS TRUE THAT MEMBERS ARE LIFTING LESS OIL THAN IS AVAILABLE, IT IS ALSO TRUE THAT NIOC HAS UNILATERALLY BROKEN VIRTUALLY ALL THE PRICING PROVISIONS OF THE AGREEMENT, AND HAS REPEATEDLY DEMANDED, IN EFFECT, MORE THAN MFN TREATMENT ON PRICING.  
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